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FISCAL IMPACT STATEMENT

LS 6523

BILL NUMBER: SB 495

NOTE PREPARED: Jan 6, 2009

BILL AMENDED:

SUBJECT: Property Tax Circuit Breaker Income Tax.

FIRST AUTHOR: Sen. Broden

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill permits a county to impose an income tax to replace civil taxing unit property tax revenue that is reduced as a result of the property tax circuit breaker rate caps.

The bill requires the Department of Local Government Finance (DLGF) to determine and certify the property tax circuit breaker replacement amount. It requires the Budget Agency to determine and certify the income tax rate necessary to raise the property tax circuit breaker replacement amount.

The bill provides that these determinations are made when the income tax is initially imposed. It also allows for subsequent determinations of the replacement amount and the maximum rate. The bill provides that the rate may not exceed the lesser of the certified rate or 1%.

This bill requires the revenue from the tax to be deposited in each fund affected by the property tax circuit breaker, and it requires any excess income tax revenue to be deposited in the civil taxing unit's rainy day fund.

Effective Date: July 1, 2009.

Explanation of State Expenditures: Under this bill, the DLGF would be required to determine a county's circuit breaker amount for civil taxing units and circuit breaker income tax rate upon request of a county. The DLGF would certify the circuit breaker amount and the State Budget Agency (SBA) would certify the tax rate.

A county may make a request to the Director of the Office of Management and Budget (OMB) for a new

determination if the certified tax rate is insufficient to generate the circuit breaker amount.

The Department of Revenue (DOR) and the SBA would be required to certify and distribute proceeds from the property tax circuit breaker income tax under the bill.

The resource levels of the DLGF, DOR, SBA, and OMB should be sufficient to carry out these tasks.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would permit a county to impose a local option income tax to defray the property tax collection loss due to circuit breaker credits. The county council could impose the tax in a CAGIT county and the county income tax council could impose the tax in a COIT county. If the county has not adopted CAGIT or COIT, then either council may impose the circuit breaker income tax. Tax rates must be rounded up to the nearest one tenth of one percent and may not exceed 1%.

Under current law, circuit breaker credits are expected to reduce property tax collections by a total of about \$403 M in 2010 and \$430 M in 2011. Civil taxing units will account for about \$281 M in 2010 and \$300 M in 2011.

If all counties imposed the income tax, the statewide average income tax rate is estimated to be 0.25% in 2010 and 0.26% in 2011. The taxes would generate about \$334 M in 2010 and \$357 M in 2011. This amount would completely fund the credits attributable to civil taxing units in all but one county. Lake County civil units would still have property tax shortfalls of about \$10 M in 2010 and \$8 M in 2011.

The income tax proceeds would be distributed to all civil taxing units that have reductions in property tax collections due to the circuit breaker. Revenue in excess of the credits (generated from rounding up the tax rate) would be deposited into the rainy day funds of the civil taxing units that had circuit breaker losses. The statewide total rainy day transfer is estimated at \$68 M in 2010 and \$65 M in 2011 if all counties adopt.

The fiscal impact depends on local action.

State Agencies Affected: DOR; SBA, DLGF, OMB.

Local Agencies Affected: All civil taxing units; County auditors; County councils; County income tax councils.

Information Sources: LSA parcel-level assessment and tax database.

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